



Dear Shareholders,

The year of 2004 was a year full of challenges to the Company. Whilst the PRC economic growth maintained its fast pace, and the aviation manufacturing industry also kept growing steadily, the automobile industry suffered a setback due to certain unfavourable factors, which in turn led to a sharp fall in the earnings of the Group's automobile business. For the year ended 31 December 2004, the Group recorded a sales revenue of RMB12,877 million, representing a decrease of 14.53% from that of 2003. The Group's profits for the year decreased to RMB71 million, representing a decrease of 84.29% from that of 2003. Earnings per share amounted to RMB0.015 for 2004.

The Board of Directors does not recommend the distribution of a final dividend for the year ended 31 December 2004.

### **BUSINESS REVIEW FOR 2004**

In 2004 the Group made substantial progress in the cooperation with international partners in the aviation business. The Group will play an important role in implementing the framework agreement on cooperation in advanced medium general purpose helicopter project signed between AVIC II and Eurocopter. The construction of model HC-120 helicopter final assembly line has been completed, and the first helicopter made on this line had completed its first flight. During the year the Company entered into an agreement with Italy AgustaWestland on the joint production of model A-109E helicopter, thereby expanding the scope of international cooperation in the area of aviation products. The Group's model H-425 helicopter was awarded an airworthiness certificate by Civil Aviation Administration of China (CAAC). The general transport helicopter, model Z-8F, completed its first flight. The Z-9 police helicopter series was used by the national police system for the first time. The regional jet business did well last year and five units had been delivered to customers in 2004.



Facing the changes in the automobile industry operating environment in 2004, the Group sped up the business integration and enterprise reformation process. The integration of the subsidiaries in automobile business and engine business took effect through the acquisition of the entire equity interest in Hafei Auto by Dongan Motor. Through setting up AviChina Automobile Business Department, adjustments have been made to the Company's administration as well as the management of the subsidiaries engaging in automobile business and there has been in place the centralization of decision making, planning and development, purchasing, marketing and international cooperation, thereby achieving the goal of resources sharing and cost cutting.

## BUSINESS PROSPECT FOR 2005

The Company's Board of Directors believes that, in 2005, the macro-economy of China will continue to grow at a steady pace, which in turn will boost the growth of aviation manufacturing industry and the automobile manufacturing industry.

Along with the step-by-step relaxation of the restriction on the use of low altitude airspace, the market demand for helicopters and general purpose aeroplanes will increase. The expansion of the scope of international cooperation also provides favorable opportunities for further development of the aviation industry. As the largest helicopter manufacturer and a major aircraft manufacturer in China, the Group will adjust its development strategy and increase the investment in the aviation business in the next few years. The Group will expand its helicopter production capacity, develop domestic and overseas markets, and actively seek to enter into the global supply chain of aviation products. It will strengthen its cooperation with international partners and upgrade the business to a new level generally.

In 2005, there are both opportunities and challenges for the China automobile industry. On one hand, the continuous growth of national economy will boost the steady development of automobile industry. The new policy of the Chinese Government on constructing an economized society and supporting the use of economized vehicles will provide a new opportunity for the development of the Group's mini-sized vehicles. On the other hand, the even more intense competition in the automobile market as well as further austerity measures will be a severe challenge to the domestic automobile industry. In the circumstances, the Group will integrate its automobile business to optimize resources allocation, reduce costs, and enhance operating efficiency, as well as pursue active marketing measures to increase sales volume and finally to achieve growth in the automobile business.

In 2005 the Group will further promote the enterprise reformation, optimize the allocation of human resources and improve the production efficiency. The Company will also take measures to perfect the functions of the Board of Directors and its special committees in accordance with the "Code on Corporate Governance Practices" promulgated by the Stock Exchange so as to improve the corporate governance of the Group.

We will stand by our motto "operating with integrity and providing products and services of quality" in our operation. We will work in a practical, innovative and diligent manner with a view to providing all shareholders with satisfactory returns.

On behalf of the Board of Directors, I would like to thank all our employees for their efforts and extend our gratitude to the Group's shareholders and customers.

**Zhang Hongbiao**

*Chairman*

Beijing, 4 April 2005